No. 13120

IN THE

United States Court of Appeals

FOR THE NINTH CIRCUIT

Todd C. Faulkner,

Appellant,

vs.

John T. Gibbs,

Appellee.

BRIEF FOR APPELLEE.

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Statement of the Case.

Additional pertinent facts not mentioned in appellant's brief are as follows:

The infringement by the appellant Faulkner was deliberate and wilful. Faulkner admittedly set out to build a game similar to the Loof game on the Pike at Long Beach [Orig. R. 93]* which had been admittedly copied from the Gibbs patented machine [Orig. R. 81].

Original Finding of Fact XIII [Orig. R. 38] reads as follows:

> "The defendant Todd C. Faulkner derived the Fawn game from an examination of a similar game

*Refers to the record before this Court on appeal dealing with the merits. Citations noted as "R." refer to the present record on appeal.

> being operated by one Arthur Looff on the Pike in Long Beach, California. The said Looff game had in turn been copied from a game embodying the subject matter of the said Gibbs patent operated by the plaintiff Gibbs at Santa Monica, California, and on the Pike at Long Beach, California. The said Fawn game was thus not original with the defendant Todd C. Faulkner, but was derived from the said Gibbs patent."

After a preliminary injunction was granted against Faulkner, enjoining infringement, Faulkner made some inconsequential changes in the infringing apparatus and continued to operate notwithstanding the injunction [Orig. R. 37]. After the modified machines were held to infringe, and permanent injunction issued, he deposited a $15,000.00 cash *supersedeas* bond and continued to operate, even after this Court of Appeals affirmed the judgment of the District Court.

During the main trial the Court remarked to Faulkner's expert witness (the late Harold W. Mattingly, Esq.):

> "You know very well, of course, that these people [Faulkner and his manufacturer] went out and copied this thing [the Gibbs patented game]; and the only deviation they made is either on a lawyer's advice or technician's advice as to how to get around it. Is that not a fact?
>
> The Witness: The way to avoid the patent, yes." [Orig. R. 201.]

The District Court again, in the recent hearing on damages, referred to Faulkner as a *deliberate* infringer [R. 123].

Faulkner does not know how much he took in from the infringing business. Throughout the nearly six years of infringement, and notwithstanding that upon several occasions he was given judicial notice that there would come a day of reckoning, he neglected (or intentionally avoided) maintaining proper records of account, and when asked about receipts and expenses, professed ignorance. [See Faulkner testimony, R. 77 *et seq.*]

Inasmuch as the infringing business was potentially capable of bringing in an annual gross running into six figures, the failure to keep records was for the obvious intent of evading liability for damages.

By stipulation, the facts are that two infringing "Fawn" games of 16 units each, or a total of 32 units, were operated by Faulkner from approximately August, 1944, to December, 1949, and were customarily open to the public from twelve noon to 11 P. M. [R. 101]. Sometimes Faulkner charged 10 cents per game per person, sometimes 20 cents. The machines would accommodate one person at each unit, or 32 players at a time, and the rate of play was about 35 games an hour [R. 45-46].

The potential income, 35 games an hour, 11 hours a day, at 20 cents, was $750,000.00 a year. If half of that is deducted for prizes, the annual gross profit would be $375,000.00. A five per cent royalty would amount to $18,750.00 a year, which exceeds $100,000.00 for the period of the infringement.

The appellant denies an income like that, but produced no evidence worthy of the name, to establish anything less.

Aside from the facts of location, number of infringing machines, period and hours operated, and amounts charged

for play, the only acceptable evidence was offered by appellee Gibbs.

Gibbs produced three types of proof:

1. Licenses under the patent.

2. Opinion as to what Faulkner made.

3. Opinion as to the value of a license in Faulkner's location.

Under the first proof, an established royalty of $3,000.00 a year is shown for locations of the Faulkner character.

Under the second, Faulkner realized an estimated $36,000.00 a year profit which could be a basis for determining damages [R. 50-51].

By the third type of proof, the royalty value of Faulkner's Long Beach area was $10,000.00 a year.

The District Court fixed the damages at *less than* the established royalty.

SUMMARY OF ARGUMENT.

1. The District Court was unduly conservative in fixing damages, and under the law could have, and should have, allowed more.

2. Attorney's fees were justified by the deliberate infringement, and obstructionist tactics of appellant, and the amount allowed is nominal.

ARGUMENT.

I.

The District Court Was Unduly Conservative in Fixing Damages, and Under the Law Could Have, and Should Have, Allowed More.

By amendment to R. S. 4921, 35 U. S. C. 70, in August of 1946 the statute relative to damages was changed to read in part:

> "and upon a judgment being rendered in any case for an infringement, the complainant shall be entitled to recover general damages which shall be due compensation for making, using or selling the invention, *not less than a reasonable royalty therefor,* together with such costs and interest as may be fixed by the court." (Italics ours.)

Prior to the amendment, there were many Court decisions approving an established royalty as a measure of damages against infringers. The general principles involved were carried over into the amendment, except that the courts are now given greater latitude and authorized to render a judgment for *general damages* which shall be due compensation, *not less than* a reasonable royalty.

What is a reasonable royalty may be determined by reference to existing license agreements, or by practices in the trade, by expert opinion, or by the Court's independent appraisal of the situation. It is important to note that the Court is not restricted to a reasonable royalty, but that a reasonable royalty is the *minimum.*

In fact, even under the old practice, evidence of what is reasonable royalty was quite as admissible as that of an established royalty.

> *Dowagiac Mfg. Co. v. Minnesota Moline Plow Co.,* 235 U. S. 641; 59 L. Ed. 398.

In the case of *Austin-Western Road Machinery Co. v. Disc Grader & Plow Co.,* 291 Fed. 302, C. C. A. 8th, 1923, it was held that an allowance *in addition* to an established royalty is not error. In this particular case 15% additional was allowed. Cases cited were:

> *Dunkley Co. v. Vrooman* (C. C. A.), 272 Fed. 468;
>
> *Malleable Iron Range Co. v. Lee* (C. C. A.) 263 Fed. 896.

The *Austin* case was cited with approval in *Horvath v. McCord Radiator & Mfg. Co.,* 100 F. 2d 326, C. C. A. 6th, 1938.

What constitutes a reasonable royalty under the new law seems to be based upon the same principles as the determination of reasonable royalty for the purpose of fixing damages under the old law. Thus an established royalty actually in effect between the patentee and one or more licensees has frequently been accepted as reasonable royalty; otherwise the Court has had to have recourse to fact and expert evidence and arrive by logic and deduction at what should be considered reasonable.

Appellant has attacked the $3,000.00 "established royalty" figure by endeavoring to dissect the ten license agreements and also to urge that most of them are dated subsequent to the instant infringement. If the agreements are construed in their entirety, it will be found that appel-

lant is in error by his dissection, and that the $3,000.00 figure is approximately correct. In any event, there were $3,000.00 royalty agreements in effect.

Mr. Gibbs mentions the $3,000.00 royalty figure as the general basis for his licenses on locations open more than two and one-half to three months a year [R. 22]. He had several oral agreements in effect which paid $3,000.00 a season, plus the purchase of equipment from Gibbs [R. 54].

For appellee's purpose, the licenses may all be disregarded in favor of Mr. Gibbs' opinion [R. 41] that the location was worth about $10,000.00 per year license fee; or in favor of an even more advantageous interpretation, wherein the potential infringing operation is shown capable of realizing a gross profit of about three hundred seventy-five thousand dollars ($375,000.00) per year, on which only a 5% royalty would amount to eighteen thousand seven hundred fifty dollars ($18,750.00) per year.

Where a defendant, as the appellant here, acted with full knowledge and in wanton and wilful disregard of complainant's rights, every doubt as to damages should be resolved against the infringer.

> *Rose v. Hirsch,* 94 Fed. 177;
>
> *Regina Music Box Co. v. F. G. Otto and Sons,* 114 Fed. 505;
>
> *Consolidated Rubber Tire Co. v. Diamond Rubber Co.,* 232 Fed. 475 (Affirmed 226 Fed. 455).

It is clear that the Court is not bound by "established royalty," and if the evidence of established royalty is inadequate the Court may make up its own mind. Here,

the District Court accepted $3,000.00 a year as an established royalty, and used that as a general basis for computing damages. But it was not bound to do so.

It has been emphasized by the United States Supreme Court that under the 1946 Amendment the successful plaintiff is entitled to recover damages *not less than a reasonable royalty.*

> *United States v. National Lead Company,* 332 U. S. 319, 67 S. Ct. 1634, 91 L. Ed. 2077, 73 U. S. P. Q. 498 (footnote 8 of the opinion).

Even under the reasonable royalty doctrine, considerable latitude is permitted.

In one reported case where there was no evidence of an established royalty, the Court of Appeals for the Sixth Circuit found that 10% of the price secured by defendant from the sale of the infringing machine to jobbers was a reasonable royalty.

> *Autographic Register Co. v. Sturgis Register Co.,* 110 F. 2d 883 (C. C. A. 6, 1940).

In another case a royalty of ten cents per package fixed by a Master, was held reasonable upon a showing that the plaintiff's sole licensee paid 7.2 cents per package. (*Wedge v. Waynesboro Nurseries, Inc.,* 31 Fed. Supp. 638 (D. C. W. D. Va., 1940).) In another case where there was a single sale of the infringing item, the Court found a reasonable royalty to be 12½% of the sale price of the infringing product.

> *Austral Sales Corporation v. Jamestown Metal Equipment Co., Inc.,* 45 Fed. Supp. 360 (D. C. W. D., N. Y., 1942).

What is reasonable royalty was discussed in the Eastern District of New York in a case under the 1946 Amendment, wherein the Court stated:

> "* * * in my opinion, twenty-five per cent is too high, and that three per cent is too low, for the reason that this would mean one could infringe with impunity even if it has no license, and then when found to be an infringer, pay only that which a license would have required. Ten or fifteen per cent would obviate this criticism as a business proposition, and the evidence will support what I find to be the reasonable damage."

Otis Elevator Company v. John W. Kiesling & Son, Inc., 87 Fed. Supp. 408, 83 U. S. P. Q. 289.

It has been emphasized that the damages allowed shall be *due compensation.*

Ric-Wil Company v. E. V. Kaiser Company, 179 F. 2d 401, 84 U. S. P. Q. 121 (7 Cir., 1950).

We have not been able to cite much authority from Court of Appeals decisions under the new law, because apparently there have not yet been many cases decided in the higher courts.

In conclusion on this point, we urge this Court to revise the amount of damages upwardly. If that is not done, Faulkner, a deliberate infringer, escapes the consequences of his acts by paying even less than licensees of corresponding operations, because he was not called upon to buy the equipment from Gibbs, and thereby saved about $5,000.00 which would have been profit to Gibbs [R. 53]. Faulkner should pay even more than voluntary licensees, under all principles of equity.

II.

Attorney's Fees Were Justified by the Delberate Infringement, and Obstructionist Tactics of Appellant, and the Amount Allowed Is Nominal.

We are in full accord with the general principle that attorneys' fees in patent cases should be the exception and not the rule, and that even when the exception justifies attorneys' fees they should be relatively nominal.

The facts in the present case support the exception. Infringement by Faulkner was deliberate from the inception and continued throughout the remaining life of the patent, a period of nearly six years, notwithstanding that Faulkner knew from the complaint, if not previously, that the Gibbs' patent had been adjudicated in New York as valid and infringed. In the present litigation, at no stage was there any ruling or decision adverse to the patent in any court, which could justify an opinion that Faulkner had a meritorious defense.

Subsequent to the trial in the District Court, accounting proceedings were conducted before David B. Head, Esq., as Special Master. Details are not revealed in the present record on appeal, but reference is made thereto in the present Record, page 10, Finding of Fact V, pages 18, 23, 112-113. It should not be necessary to bring up any additional record to establish that these proceedings ended ineffectively, in view of the fact that Judge Yankwich heard the matter of damages *ab initio,* as is obvious from the context of the hearing on May 28, 1951.

One of the difficulties placed in the way of appellee by appellant is set up in Finding V, R. 6, wherein said finding reads in part:

> "The defendant, however, is relying upon information furnished him by his employees, and no books or

> records supporting his contention were produced before this Court, nor were the employees called as witnesses."

Appellee's counsel took the deposition of appellee Gibbs March 28, 1951, for use in the hearing and took the deposition of appellant Faulkner on February 5, 1948. It is also fully apparent from the context of the record [see colloquy of counsel, R. 116] that other depositions were taken in connection with the issue of damages which were not used in the hearing but which did involve services of counsel. For example, appellant's attorney, Mr. Fulwider, himself stated on page 116 of the Record:

> "Mr. Herzig came to Long Beach and took an extensive deposition of Mrs. Potter, who had been the bookkeeper of Mr. Faulkner for a long time. We had all the books and records there. That testimony showed that they kept certain slips or charges, whatever you want to call them."

No supporting data is needed to show that counsel for appellee were present at the hearing before Judge Yankwich, May 28, 1951. Preparation for all of the depositions and hearings was necessary. After the hearing in Court on May 28, 1951, counsel for appellee prepared the Findings of Fact, Conclusions of Law and Judgment, which are in the present record.

The final hearing constituted a trial, namely, that concerning damages which was an issue not tried in the original trial on the merits.

Under the amended patent statutes, the District Court had full authority to fix additional attorney's fees. 35 U. S. C. 70, as amended, reads in part:

> "The Court may in its discretion award reasonable attorney's fees to the prevailing party upon the entry judgment in any patent case."

Certainly there the Court entered judgment as to damages. There were in fact two trials; the first one on the merits of the patent, and the most recent on the issue of damages. Under these facts it was not necessary for the District Court at the close of the first trial, when awarding attorney's fees, to reserve the right to award additional attorney's fees at the close of a future trial on damages.

The case of *Laufenberg, Inc. v. Goldblatt Bros., Inc.*, C. A. 7, 187 F. 2d 823, 89 U. S. P. Q. 5, cited in Appellant's Brief, is not in point. In that case the District Court after trial dismissed the complaint. There was no subsequent trial on any issue. The question was whether the District Court if it intended to award attorney's fees to the prevailing defendant should have done so, or reserved the right to do so, at the close of the trial, and the Court of Appeals held that it should.

We recognize the decision of this Court in *Dubil v. Rayford Camp and Company*, C. A. 9, 184 F. 2d 899, 87 U. S. P. Q. 143, that the basis on which attorney's fees are to be awarded must be stated clearly. This has been done.

Finding of Fact III [R. 5], complies with this requirement. It reads in part as follows:

> "Since January 6, 1950, plaintiff Gibbs has incurred legal expenses in connection with the issue of dam-

ages for his attorneys' services in investigating the defendant's operations, taking depositions on the subject of damages, moving before this Court for an assignment of damages, preparing for a hearing on the same, and conducting a hearing before this Court on May 28, 1951."

Finding of Fact VII [R. 7], reads in part:

"* * * the Court now finds that the further sum of One Thousand ($1,000.00) Dollars should be allowed as additional attorney's fees, which sum is reasonable and nominal in view of the extent of the litigation."

We urge that in view of the showing made and the Findings of Fact, there is no basis for suggesting an abuse of discretion on the part of the District Court in allowing the relatively nominal sum of One Thousand Dollars as additional attorneys' fees. Such allowance on the showing made is not in conflict with any of the decisions of this Court dealing with attorneys' fees.

Respectfully submitted,

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Los Angeles, January 25, 1952.